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SOVIET ECONOMIC ASSISTANCE TO THE LESS DEVELOPED COUNTRIES  
OF THE FREE WORLD

BY

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SOVIET ECONOMIC ASSISTANCE TO THE LESS DEVELOPED COUNTRIES

Recent Shifts in the Aid Program

1. Since 1954 the USSR has extended about \$6.8 billion of economic assistance to 38 non-Communist less developed countries.\* In spite of the increase in annual aid undertakings since the end of 1964 -- from an average of almost \$370 million between 1954-64 to about \$560 million during 1965-69 -- annual disbursements have not increased. This levelling-off in deliveries, together with a lack of vigorous new Soviet aid initiatives, and the generally harder terms associated with many recent Soviet credits, suggest that the present leadership has adopted a more conservative approach to foreign aid. During the first decade of the aid offensive, Moscow was willing to extend assistance to almost any less developed country that requested it. Large lines of credit ("umbrella credits" not committed to specific uses) were extended for economic development which, because of the accompanying propaganda, the timing, and the kinds of projects undertaken often produced a political impact that was out of proportion to the amount of aid or its ultimate economic benefits. Moreover early Soviet aid agreements often were formalized without prior study of the proposed investments, either as they related to the recipients' absorptive capacity or the feasibility of specific program assistance. As a consequence much of the aid remained unutilized; in some cases completed projects operated far below optimum capacities.

\* Soviet extensions of military assistance to the less developed countries bring this figure up to somewhat more than \$11 billion. Less military aid was extended in 1969 than in 1965-68, as an annual average. The decline in 1969 reflects smaller aid pledges to Arab countries, which had largely restored their inventories to pre-war levels following the June 1967 war with Israel.

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2. During the past few years, however, the USSR has modified its foreign aid program so as to make it more effective, both politically and economically. Assistance is being concentrated in fewer countries, as discussed in paragraphs 3-5 below. Recent Soviet aid commitments also have shown a diversity in terms and content which suggests that Soviet aid officials are paying greater attention to local conditions and individual requirements than in the past. The USSR undertakes extensive feasibility surveys before aid is extended to specific projects, and repayment terms vary with the type of aid extended.

3. From the beginning, Soviet aid was highly concentrated in a few countries, especially in the Near East and South Asia. To some extent this early concentration was a reflection of the greater willingness of certain less developed countries to accept assistance from the Soviet Union rather than any Soviet strategy for penetrating particular areas. By the mid-1960's, as more developing nations discarded their former inhibitions against accepting Soviet assistance, the USSR was able to use aid more directly to promote its foreign policy objectives. Although the USSR continues to extend at least token assistance to all Free World areas, its aid program has become more highly targeted as Khrushchev's successors apply location criteria to their aid determinations more systematically than before. These criteria identify Soviet interests in the Arab World and Moscow's desire to reinforce its foothold in the Near East including, in particular, Turkey, Iran, Pakistan, India, and Afghanistan; they also reflect the USSR's growing concern with China, and

the desire to strengthen Soviet relationships with nations along its own and Communist China's southern borders. Thus in most recent years, a larger part of new commitments has been earmarked for Near Eastern and South Asian countries. Out of total Soviet assistance extended to developing nations between 1965 and 1969, some 82% was allocated to the Near East and South Asia, compared with 62% during 1960-64. Meanwhile Africa's share of the total fell from 28% to 11% and the share of East Asia and Latin America, together, fell to about 7%.

4. The emergence of Iran, Pakistan, and Turkey as major aid recipients since 1965 is one of the most significant indicators of intensified Soviet interest in the Near East-South Asian region. With the extension of aid to these Central Treaty Organization countries, the USSR has created an unbroken chain of foreign aid clients with borders contiguous to its own or Communist China's. As a group, the six nations along the USSR's southern periphery have received commitments of about \$3.5 billion, almost 60% of which has been extended since January 1965. Aid extended to these "border" states comprises one-half of total Soviet economic aid extended to all less developed countries since the inception of the aid program in 1954 and about two-thirds of the total provided the Near East and South Asian countries.

5. The USSR has extended aid to 12 African countries since 1964, but the amount extended to each recipient usually has been smaller than before. The reduced participation of African countries in the Soviet

aid program demonstrates not only the shifting geographic focus of the program; it also is a reflection of the inability of some African nations to absorb effectively the aid provided to them in the past.

6. To an increasing extent, the USSR is extending assistance that will provide mutual benefits both to aid recipients and to the USSR. For example, Soviet aid extended for developing petroleum resources in several Middle Eastern countries may help these countries to establish independent national industries and also to enable them to repay Soviet credits in crude oil. Soviet-aided natural gas development in Afghanistan is supplying part of Afghanistan's local power requirements. Its natural gas exports to the USSR, which eventually will average 3.5-4 billion cubic meters annually, will help Afghanistan to pay off a large part of its debt to the USSR. These exports also will help to satisfy Soviet requirements for natural gas. The Soviet-aided pipeline being built from Iran to the Soviet border will allow Iran to capitalize on a former waste product while providing the USSR with natural gas that it needs. Other examples of mutually advantageous projects are the trans-border roads and railroads that have been included in Soviet aid to a number of border countries; the expansion of port facilities in less developed countries that can also be used by Soviet vessels; and Soviet aid to the developing countries' fishing industries that will provide facilities for use by the far-flung Soviet fishing fleet.

Joint borderland economic complexes -- such as the dam being built on the Aras River, a natural boundary between the USSR and Iran -- also offer prospects for future technical cooperation.

#### Aid Extended

7. During 1969 the USSR extended \$462 million of economic assistance, slightly more than the amount extended in the previous year. (See Table 1). Each of the major commitments in 1969 -- made to Turkey, Iraq and Guinea -- was designated for an industrial undertaking. In Turkey, \$166 million of credits was allocated to a steel plant already under construction with Soviet aid; in Iraq the aid was for petroleum exploration and development; and in Guinea it was for bauxite mining. Other smaller credits were extended to the Sudan, Pakistan and Uruguay. The latter, a trade credit allowing repayment over an eight-year period, was the first aid Uruguay had received from the USSR. Afghanistan and Iran, which rank third and fourth, respectively, on the scale of Soviet economic aid recipients were provided with aid in 1968 for their current development plans. Pakistan also received assistance for its Fourth Plan which begins July 1970.

8. The amount of aid extended by the USSR has varied widely from year to year, from a low of about \$50 million in 1962 to record extensions of \$1.2 billion in 1966. Recent fluctuations in annual aid undertakings do not appear to be related to the changes in post-Khrushchev aid policy.

Such fluctuations are expected in a program whose commitments are to projects and development plans that often require several years for implementation. For the most part, recent peak years have reflected the extension of aid to countries that are initiating new development plans; the low years often mean that major aid recipients are working off credits previously extended (see Table 2). The amount of aid extended for forthcoming plans is conditioned largely on the feasibility of proposed projects and the developing nation's progress in drawing down aid allocated for previous plans. In general, the USSR has been unwilling to expand significantly its commitments to countries that have large undrawn balances on credits previously extended. At the end of 1969 these undrawn balances amounted to an estimated \$3.7 billion.

#### Implementation

9. Soviet aid deliveries totaled about \$3.1 billion by the end of 1969, a drawdown of about 49% of the total aid extended during 1954-68. The ratio between cumulative drawings and extensions, which averaged about 25% in earlier years, has been relatively stable since 1963 (see Table 3). Afghanistan, India, and the United Arab Republic which together have received almost one-half of total Soviet aid commitments, have had the best implementation record. By the end of 1969, these 3 countries probably had drawn as much as 60% of the aid extended to them, compared with an average rate for all other aid recipients of

about one-third. In general, the countries of the Near East and South Asia have drawn Soviet aid more rapidly than other areas. Their rate of drawdown has been 2 to 3 times faster than that of African countries.

10. Nevertheless, implementation of the Soviet program as a whole has been slow. Drawings for recent years are estimated at about \$350 million annually, still somewhat below the peak level drawings of 1964. By the end of 1967, the less developed countries had drawn down credits equivalent to the amount of aid extended during the first 7 years of the program (1954-60), showing an average lag in drawings of about 7 years. Lengthy delays, however, are hardly unique to the Soviet program, although the character of this program makes it more susceptible to these lags. Generally, the USSR has refused to cover local projects costs, which the less developed countries often are unable to provide. Although the developing countries' share of the undertaking runs as high as 50% of total cost, thus far the USSR has provided only about 5% of its total aid in the form of commodities, whose sale is intended to generate currency to finance the local costs. Other aid donors have tried to reduce the effect of local problems by helping to defray a larger share of these costs and by accepting greater responsibility for constructing the physical plant and putting it into operation. Except for gift installations (such as hospitals and cultural institutions), the USSR is known to have assumed full responsibility for



implementing projects only in a few cases. The Assab refinery in Ethiopia, started in 1961, was built as a turnkey project.\* In 1963, the USSR formed a Soviet organization in Guinea that assumed responsibility for local Soviet projects, and in 1968 the USSR took over the management of local labor forces in Algeria that were working on Soviet-aided dams and irrigation projects. Although the USSR did not act as the contractor for the Aswan Dam in the UAR, it did provide management assistance to direct its construction.

11. From the beginning the Soviet Union has recognized that shortages of technical skills and trained administrative and managerial personnel would obstruct the effective implementation of its economic assistance program. To combat this problem, the USSR has dispatched technicians to the less developed countries and provided training for personnel from the developing nations. In 1969, there were approximately 10,000 Soviet economic technicians in the less developed countries. In addition to technical training which the USSR is providing to large numbers of personnel from the less developed countries in the USSR, Moscow also is building technical institutions in the developing countries to train local personnel. On-the-job training at the site of Soviet-aided construction projects also has been provided to more than 150,000 persons.

\* Also referred to as a "locked" agreement, under which the donor country assumes full responsibility for plant construction and its initial operation.

12. In spite of problems encountered in putting Soviet aid to use, the USSR has contributed significantly to the development plans of some less developed nations. In Afghanistan, for example, about 50% of its aid requirements in recent years have been met through Soviet assistance. In India, Soviet-aided steel capacity will represent approximately 70% of total output when capacity operations are reached. In the UAR, Soviet-aided projects will increase electric power capacity  $2\frac{1}{2}$  times and steel output 4 to 5 times.

#### Outlook

12. The USSR almost certainly considers the position of influence it has gained in less developed countries, at least partially through its economic aid program, to have outweighed the costs, the frustrations and the occasional setbacks. It will probably continue to extend assistance where it believes its long-or short-run political and economic objectives will be promoted. At the moment, there is no reason to expect a major departure in Soviet aid policy, either with regard to geographic distribution or the annual volume of deliveries. Present patterns may be accentuated in some years, however, as Arab countries and those in strategic border areas approach new plan periods and the USSR provides them with additional aid. The USSR will continue to press recipient countries to draw down more quickly aid previously extended, and the somewhat level of drawings may rise over the next few years as Soviet training programs provide larger pools of skilled labor and less developed countries develop the skills and resources needed to absorb capital investment more rapidly.

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Table 1

USSR: Economic Credits and Grants Extended to Less Developed Countries<sup>a/</sup>  
1954-1969

	Million US \$		
<u>Country</u>	<u>1954-1969</u>	<u>1968</u>	<u>1969</u>
Total	<u>6,825</u>	<u>374</u>	<u>462</u>
<u>Africa</u>	<u>993</u>	NA	<u>135</u>
Algeria	232		
Cameroon	8		
Congo (Brazzaville)	9		
Ethiopia	102		
Ghana	89		
Guinea	165		92
Kenya	44		
Mali	56		1
Mauritania	3		
Morocco	44		
Nigeria	NA	NA	
Senegal	7		
Sierra Leone	28		
Somalia	66		
Sudan	64		42
Tanzania	20		
Tunisia	34		
Uganda	16		
Zambia	6		
<u>East Asia</u>	<u>411</u>	<u>0</u>	<u>0</u>
Burma	14		
Cambodia	25		
Indonesia	372		
<u>Latin America</u>	<u>207</u>	<u>2</u>	<u>20</u>
Argentina	45		
Brazil	85		
Chile	55		
Colombia	2	2	
Uruguay	20		20
<u>Near East and South Asia</u>	<u>5,214</u>	<u>372</u>	<u>307</u>
Afghanistan	697	127	
Ceylon	30		
Greece	84		
India	1,593		
Iran	508	178	
Iraq	305		121
Nepal	20		
Pakistan	265	67	20
Syria	233		
Turkey	376		166
UAR	1,011		
Yemen	92		

a. Source: US Department of State, Bureau of Intelligence and Research annual publication on Communist Aid and Trade (to be published 1970).

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Table 2

Soviet Economic Aid Extended to Current Economic Development Plans  
of Selected Aid Recipients  
1964-69

Recipient Country	Current Economic Plan Dates	Soviet Economic Aid Extended for Current Plan	
		Date Extended	Million US \$
Afghanistan	March 1967-March 1972	1968	127
India	April 1969-March 1974 <sup>a/</sup>	1965	225
		1966	555
Iran	March 1968-March 1973	1966	289
		1968	178
Iraq	January 1966-December 1970	1969	121
Pakistan	July 1970-June 1975	1968	67
		1969	20
Syria	January 1970-December 1974	1966	133
Turkey	April 1968-March 1973	1967	200
		1969	166
UAR	July 1970-June 1974 <sup>b/</sup>	1964	324
		Total	<u>2,405</u>

a. The starting date for the Fourth Plan, originally scheduled for April 1966, was delayed until April 1969.

b. Tentative.

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Table 3

USSR: Economic Credits and Grants to Less Developed Countries  
Extended and Drawn  
1954-1969

Dollar amounts in millions of current US dollars

End of Year	Cumulative		Percentage Drawn <sup>b/</sup>
	Extended	Drawn <sup>a/</sup>	
1954-60	2,460	383	18
1961	3,007	557	23
1962	3,060	785	26
1963	3,296	1,061	35
1964	4,036	1,433	43
1965	4,476	1,788	44
1966	5,720	2,093	47
1967	5,989	2,435	43
1968	6,363	2,785	47
1969	6,825	3,135 <sup>c/</sup>	49

a. Data derived from annual issues of Ministry of Foreign Trade USSR, Vneshnyaya Torgovlya SSR (International Relations Publishing House, Moscow. Export of equipment and material for complete plants (listed under Category 16 in Vneshnyaya Torgovlya SSR) is estimated to comprise 80% of total drawings. The remaining 20% includes: technical services that are not included under Category 16; machinery and equipment other than complete plants; grant aid not included in Soviet export figures; and commodities exported to the less developed countries to generate local currency for Soviet-aided projects.

b. The ratio of cumulative drawings at year's end to cumulative extensions at the beginning of the year. This is thought to be the most appropriate method of computing the percentages since large outlays on project undertakings could not be expected in the year that aid is extended.

c. Estimated

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